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CIACO NID 81 [REDACTED]

December 08, 1981

SPECIAL ANALYSIS

POLAND: The Quest for Aid

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Despite some encouraging signs that Poland will be able to reschedule its debts in 1981, the country is in the midst of a deteriorating financial and economic situation. Production has dropped sharply this year in nearly every sector, and gross output for 1981 will be near the level of the early 1970s. [REDACTED]

Poland's economic future depends on an arrangement between the regime and Solidarity for power sharing and continued economic assistance from the USSR. Continuation of current ad hoc Western aid arrangements could assist in paying debt service but will not provide a net flow of resources to help revive the economy. This juggling act, moreover, still risks an eventual debt moratorium or default that could have serious consequences for some Western banks and Poland. [REDACTED]

The major difficulty now is that Poland's major sources of economic assistance all seem unwilling to extend much new credit. West European governments are constrained by tight budgets, commercial banks are unwilling to increase their exposure, and Moscow is taking a tough stand in negotiating trade in 1982. [REDACTED]

Poland probably will need near-total relief from debt service payments totaling roughly \$10 billion annually and an additional \$1 billion to \$2 billion a year in new loans. A broadly coordinated program is required, involving the 16 Western governments that have been negotiating with Warsaw as well as private banks and official creditors not now participating in debt rescheduling. Such a program could prevent an inequitable leakage of benefits from Poland to nonparticipating creditors. [REDACTED]

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Soviet Role

At least tacit Soviet cooperation is necessary to prevent a matched withdrawal of Soviet assistance that Moscow might well be tempted to try, given its own financial problems. Continued Soviet assistance at current levels, however, is in doubt. [REDACTED]

This year Moscow has provided substantial hard currency help, rescheduled much of Poland's hard currency obligations, and--perhaps most important--allowed Warsaw to run a \$2 billion trade deficit. Moscow, however, is now threatening that it will insist on balanced trade for next year. [REDACTED]

Even if the Soviets relent somewhat, a drop in their assistance is likely. This will put additional strain on the Polish economy and make it even more difficult for Warsaw to meet its financial obligations to the West. [REDACTED]

Prospects

If the West manages to mount a massive aid effort--and the Poles use that aid to best advantage--Poland would have been assisted in the development of a pluralistic society more akin to ones in the West. Moreover, the long-term trend of increasing political and economic diversity among the USSR's allies would be reinforced. [REDACTED]

In the near term, however, the results of the current political negotiations in Poland are of overriding importance in any workable plan for national economic recovery. Much depends on whether the regime and Solidarity can arrive at a power-sharing arrangement and whether Warsaw would accept austerity and use increased Western aid rationally to implement sound policies. An accommodation between Solidarity and the government that permitted both decentralization and stabilization would facilitate economic recovery, increase the chances that Western creditors would be paid back, and improve the climate for a successful new Polish "model" of Communism. [REDACTED]